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SIPDIS

REF: (A) Kabul 502, (B) SECSTATE 14195

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SUBJECT: AF: Current Afghan preparedness for ROZ implementation

¶1. (SBU) This message is keyed to reftel questions about Afghanistan's preparedness to implement the Reconstruction Opportunity Zone (ROZ) initiative after it is passed by the U.S. Congress. Although the Afghan government has been slow in its preparations and lacks capacity to implement many of the required actions, USG and other donor programs being implemented in-country can be effectively tapped to bolster ROZ implementation efforts.

¶2. (SBU) TRANSIT TRADE: What is the current status of IROA and local stakeholder discussions to address Pak-Afghan transit trade concerns? As the USG may have resources to assist, Department would appreciate assessment from Post on technical vs. political considerations for unresolved issues as well as any further recommendations.

-- Very few discussions of Pakistan-Afghanistan transit trade issues have taken place, despite the fact that both sides complain of cross-border trade problems. The only national forum in which such discussions are planned, are follow-on sessions to the August 2007 Afghan-Pakistan Peace Jirga. The renegotiation of the 1965 Afghan Trade and Transit Agreement (ATTA) would offer an excellent opportunity to address transit trade concerns. Although the two sides have yet to set any date for ATTA negotiations, this issue may be addressed at the Regional Economic Cooperation Conference (RECC) to be held in Islamabad in April 2008. Other than localized discussions between customs and border officials of both nations at specific border crossing points, we are not aware of any current exchanges.

-- With regard to technical considerations, a USAID/Afghanistan-funded study on cross-border transportation issues revealed Pakistan's primary concerns to be: a) lack of insurance among Afghanistan vehicles; b) the poor condition of Afghanistan vehicles (operation beyond their useful life, and safety), and c)

lack of competence among Afghanistan drivers. In response, USAID programming is targeting interventions along the value chain to mitigate these concerns during the next few months. USAID assistance has helped to establish the first Afghanistan insurance company which will now allow for drivers to carry insurance (though enforcement may not be immediate), fostered a GDA partnership with U.S. Ford Motor Company to make used cars with an average age of 5-8 years old available for lease, and establishment of a driving school for Afghans to receive driver training.

¶3. (SBU) LABOR: What training, local legislation or local solutions are necessary to ensure that labor standards within the ROZ's would meet minimum international standards?

-- Please see ref A.

¶4. (SBU) How will host governments and industry monitor and protect workers rights within the ROZ's?

This can be addressed in general terms if/when additional resources for ROZ become available.

¶5. (SBU) TRANSSHIPMENT OF GOODS: What mechanisms are in place or can be developed to monitor and prevent transshipment of goods seeking duty-free access to U.S. markets that were not produced in an ROZ?

-- Few mechanisms exist, but they can be created. The danger of transshipment is more an issue of geography. If there are transshipment dangers, they can be expected from two sources - primarily China and possibly Iran. Transshipment from Pakistan is unlikely because it would be easier to falsify the location of the production within the qualified zones in Pakistan, than to involve Afghans in a fraud.

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-- Regarding China, Afghanistan has fewer than 75 miles of contiguous border with China in the very rugged Wakhan Corridor area of Badakhshan Province. The process of moving significant quantities of textiles or such into Afghanistan to take advantage of the ROZ benefits via the Corridor seem to be more trouble than it would be worth since the material would still have to be moved out of that most isolated portion of Afghanistan to the United States. Verification would be possible although the effort might also be more costly than any enforcement benefit as well. Any other movement of Chinese material for transshipment purposes would involve moving through Afghanistan's northern neighbors by truck or by air through Kabul Airport. This would expose the would-be transshipper to banditry on the road, or to greater law enforcement exposure with the most effective units of the Afghan Customs Department (ACD), a division of the Ministry of Finance.

-- The border with Iran poses more problems. The degree of control that ACD central management has over the Iranian border provinces is limited, and control mechanisms would be difficult to put into place and audit. Nevertheless, the sudden appearance of any manufactured goods from the western part of Afghanistan would immediately raise questions, since this area is primarily agricultural, involved in narcotics production, and highly contested by insurgent and government forces.

¶6. (SBU) Would appropriate local authorities be open to U.S. customs verification teams monitoring and enforcing those anti-transshipment measures contained in ROZ legislation?

-- The Afghan Customs Department (ACD) is committed to the idea of creating mobile verification teams to post audit compliance with import requirements in connection with traffic through border crossing points. These teams would be similar in function and form to the verification teams above. If U.S. government verification efforts were presented as an adjunct to this ACD initiative, the ACD response is more likely to be positive. The Embassy's Border Management Task Force (BMTF) can support and liaise with the verification teams both upon entry into Afghanistan and for on-site visits, particularly to Afghan border crossing points, where the BMTF has mentors and resources on site.

17. (SBU) RULES OF ORIGIN: What mechanisms are in place or can be developed to monitor and document rules of origin to ensure that 35 percent of the value of the products comes from ROZ processing?

-- Our experience with the details of ACD law indicates that there are currently no such rules or mechanisms since country of origin is not an issue of great impact/priority at this time. International donor support or Embassy support through the Economics Section, the Rule of Law Section, the BMTF, or other interested parties could assist the ACD in creating such rules and procedures to carry them out. Pending availability of future resources for ROZs, this issue could be addressed under a new USAID program under design which will focus on trade facilitation.

18. (SBU) INTELLECTUAL PROPERTY RIGHTS: For the types of products to be produced in an ROZ, does Post anticipate IPR concerns?

-- Based on discussions with interested business groups, initial production in Afghan ROZ's is likely to center around textiles and their finishing (as allowed by the legislation). Therefore it is unlikely IPR concerns will come to the fore until several years down the road as Afghanistan's manufacturing capacity, as well as its ability to enforce IPR protections, matures. Pending availability of future resources for ROZ, USAID can address this issue.

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19. (SBU) VETTING OF COMPANIES: Please describe institutional capacity for how governments will screen and/or select companies that can derive ROZ benefits.

-- Currently there is no process in place within the Ministry of Commerce and Industry (MOCI), Afghanistan Investment Support Agency (AISA), or Export Promotion Agency of Afghanistan (EPAA) for selecting firms to participate in ROZs. However, EPAA has had experience identifying companies for foreign trade shows and fairs, and this capacity could be the foundation for facilitating such a process for ROZs. In addition, OPIC has supported several U.S. investors that have established Afghan operations that may also feed into an identification process from the US side. Pending availability of future resources for ROZs, USAID can provide assistance to address this issue and the Economic Section can provide advice to the government ministries and agencies.

110. (SBU) OVERALL ASSESSMENT: Based on business interest, government support and any other local issues, how quickly does post envision ROZ activities beginning after U.S. Congressional action on ROZ legislation?

-- Although there is currently some business and government interest in ROZ development/activities, more substantive interest will depend largely on the comprehensiveness of textile products eligible for ROZs. Depending upon Congressional restrictions on tariff lines, interest in the ROZ project could vary.

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